



CREDIT UNIONS ACT
CUA Requirement No. 1

Classification of Loans & Other Assets

Title and Commencement

This Requirement will be called Credit Unions Act (CUA) Requirement No. 1/2020 and replaces the previously issued CUA Requirement No. 1/2019 of 30 September 2019 and comes into effect on 20 March 2020.

Authority

This Requirement is made in exercise of the authority conferred on the Registrar of Credit Unions (the Governor of the Central Bank of Belize) by Section 51 (7) of the CUA.

Summary

This Requirement prescribes the methodology for the evaluation and classification of loans and other assets held by credit unions, and the procedures for applying this methodology.

Definitions

1. Non-performing loans and Other Interest-bearing Assets are those whose:

principal and/or interest are due and unpaid for three (3) months or more based on pre-established repayment terms. Overdrafts and other credit facilities without pre-established repayment terms are considered delinquent when deposits are insufficient to cover the interest for three (3) months or more. The principal balance outstanding and not the amount of delinquent payments is used in calculating the aggregate amount of non-performing loans.
2. Restructured Loans and Advances are credit facilities which have been refinanced, rescheduled, rolled-over, or otherwise modified under more favourable terms and conditions for the borrower because of weaknesses in the borrower's financial condition and/or repayment ability.
3. Other Assets are overdrafts and other credit facilities or any other asset that does not have a pre-established repayment term.

REQUIREMENTS

A. Classification System

1. Non-performing Loans and Other Assets.

Loans and other assets are to be classified as non-performing when there are well defined credit weaknesses, such as: when the borrower's cash flow is insufficient to service the debt as arranged; when there are several renewals; or when the primary source of repayment is insufficient to service the debt and the credit union has to look to secondary sources such as collateral for repayment. Where full security is in place in the form of cash held with the credit union, it shall be applied to the loan to avoid non-performing classification.

Insolvency or bankruptcy of a borrower should immediately result in a non-performing classification.

Non-performing classified loans and other assets are to be placed in the following categories according to the specific weaknesses outlined below:

- a) Loans and Other Assets are to be classified as **DOUBTFUL** when any one or more of the following conditions exist:
 - i. loans are three (3) months and up to twelve (12) months in arrears; or
 - ii. the approved limit on overdraft facilities has been exceeded for six (6) months and up to twelve (12) months; or
 - iii. interest charges on overdrafts and other credit facilities have not been covered by deposits for three (3) months and up to twelve (12) months; or
 - iv. loans and other assets fully secured by government or other statutory guarantees are up to twelve (12) months in arrears and the said guarantees have been ruled invalid by a Court; or
 - v. contractual arrangements on other assets are not being met.
- b) Loans and Other Assets are to be classified as **LOSS** when any one or more of the following conditions exist:
 - i. loans are over twelve (12) months in arrears; or
 - ii. the approved limit on overdraft facilities has been exceeded twelve (12) months or more; or
 - iii. interest charges on overdrafts and other credit facilities have not been covered by deposits for more than twelve (12) months; or

- iv. loans and other assets fully secured by government or other statutory guarantees are more than twelve (12) months in arrears and the said guarantees have been ruled invalid by a Court; or
- v. Where other assets under contractual arrangements are considered uncollectible.

c) Exception Sectors

- 1. The below exceptions shall only apply to loans and other assets granted to the agriculture sector which were affected by the recent drought. These loans are to be classified as follows:
 - i. **Doubtful** – loans are over eighteen (18) and up to twenty-seven (27) months in arrears; and
 - ii. **Loss** – loans are over twenty-seven (27) months in arrears.

Credit Unions are required to report to the Central Bank the specific loans that meet the above criteria. The exceptions under this section shall remain in effect until 31 March 2020.

- 2. The below exceptions shall only apply to loans and other assets granted to the Tourism (including Restaurants), Transportation, and Distribution Sectors which were negatively impacted by the Coronavirus (COVID-19). These loans are to be classified as follows:
 - i. **Doubtful** – loans are over six (6) and up to fifteen (15) months in arrears; and
 - ii. **Loss** – loans are over fifteen (15) months in arrears.

Credit Unions are required to report to the Central Bank the specific loans that meet the above criteria. The exceptions under this section shall remain in effect until 31 March 2021.

2. Non-performing Loans and Other Assets

Loans or other assets which are not classified as non-performing may, at the discretion of the credit union, be categorised in the manner outlined below:-

Loans and Other Assets are to be classified as **SPECIAL MENTION** where:

- a) They are current but the credit union is aware of factors which may adversely affect the borrower's ability to service the loan as agreed, such as when the financial condition of the borrower deteriorates or when market conditions affecting the borrower decline significantly.

- b) They are in arrears between thirty (30) to eighty nine (89) days.

All loans and other assets which do not fit any of the abovementioned categories may be regarded as current and performing.

B. Restructured Non-performing Loans

Restructured non-performing loans should not be classified as performing for a minimum of three months following modification of the credit agreement. The provisions that were established for the restructured non-performing loan should remain in place for three months.

C. Frequency and Reporting of Classification

1. Loan classification reviews should be conducted by credit unions at least quarterly based on the credit union's financial year; and
2. A list of all classified and restructured facilities shall be reported by each credit union on the prescribed Credit Union Return to the Registrar on a quarterly basis, based on the credit union's financial year. In addition, on a monthly basis, each credit union shall report an aggregate of classified loans to the Registrar on the prescribed Credit Union Return.

D. Relationship to Other Requirements

This Requirement should be read in conjunction with the companion Requirement for the Establishment of Loan Loss Reserve, 2013.

20 March 2020